

Message Text

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ACTION SS-25

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FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 8974

INFO AMEMBASSY TOKYO

USMISSION EEC BRUSSELS

AMEMBASSY ABU DHABI

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY KUWAIT

AMEMBASSY TEHRAN

AMEMBASSY LONDON

USINT ALGIERS

C O N F I D E N T I A L JIDDA 6043

EXDIS

E.O.: 11652: GDS

TAGS: ENRG, SA, US

SUBJ: SAUDI PLAN TO REDUCE POSTED PRICES; RAISE TAXES

REF : A. JIDDA 5964; B. LONDON 12965 (NOTAL); C. JIDDA 5858

1. AHMED ZAKI YAMANI, SAUDI MINISTER OF PETROLEUM, TOLD THE AMBASSADOR THAT IN NEXT FEW DAYS HE WOULD SEND HIS DEPUTY, PRINCE SAUDI BIN FAISAL, TO TEHRAN, KUWAIT AND ALGIERS TO PRESENT A NEW PROPOSAL ON OIL PRICING.

2. THE SAUDIS WILL SUGGEST REDUCING POSTED PRICES BY ABOUT 40 CENTS AND THEN RAISING THE TAX ON EQUITY OIL TO GIVE THE GOVERNMENTS THE SAME INCOME PER BARREL AS PREVIOUSLY. THIS WILL REDUCE THE COST OF OIL TO THE CONSUMING COUNTRIES AND TO THE INDEPENDENT OIL COMPANIES BY ABOUT 35 CENTS/BARREL; THEY ARE NOT FORCED TO BUY THEIR OIL EITHER FROM THE NATIONAL OIL COMPANIES OR THE MAJORS AT SOMETHING CLOSE TO THE POSTED PRICE. THE GAIN TO THE CONSUMERS WILL BE MADE UP
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OUT OF THE "INFLATED" MAJOR'S OIL PROFITS WHO PAY ONLY A BIT

OVER \$7.00 FOR EQUITY OIL AND SELL IT FOR AROUND \$10.50.

3. YAMANI ASSERTED THAT HE HAD FIGURES FROM ONE OF THE MAJOR OIL COMPANIES SHOWING ITS PROFIT WAS 97 CENTS PER BARREL ON ALL RPT ALL OIL LIFTED FROM SAUDI ARABIA. HE "KNEW" THIS FIGURE WAS LOW, BUT "EVEN IF IT IS 97 CENTS, THEY HAVE LOTS OF ROOM TO HELP THE CONSUMERS." IN A SEPARATE CONVERSATION, FRANK JUNGERS, CHAIRMAN OF ARAMCO, TOLD THE AMBASSADOR THAT SUCH FIGURES PROBABLY COME FROM RECORDS OF SALES TO AFFILIATES WHERE COMPANIES MAKE SALES AT POSTED PRICES FOR U.S. TAX PURPOSES; THEY THEN SHOW MOST OR ALL OF THEIR PROFITS UPSTREAM WHERE THEY GET TAX CREDITS.

4. YAMANI WAS CONFIDENT THAT OTHER OPEC COUNTRIES WOULD ACCEPT THE PROPOSAL. KUWAIT, HE SAID, IN ANY CASE HAS BACKED OFF SOMEWHAT FROM ITS DRIVE TOWARD NATIONALIZATION. IT WILL JUST RAISE THE TAX AND ROYALTIES ON EQUITY CRUDE AND THE PRICE OF BUY-BACK CRUDE TO AROUND 96 PERCENT OF POSTED PRICE. THIS WOULD GIVE GULF AND BRITISH PETROLEUM AROUND 5 CENTS A BARREL ADVANTAGE OVER THEIR COMPETITORS. THE REAL REASON FOR THE COMPANIES STAYING ON IN KUWAIT WOULD BE TO HAVE ACCESS TO 40 PERCENT OF KUWAIT'S OIL. THIS TECHNIQUE WOULD GIVE KUWAIT THE BENEFIT WITHOUT THE UNPLEASANTNESS OF NATIONALIZATION.

5. YAMANI REPEATED HIS STATEMENTS ON THE NECESSITY OF WORKING OUT NEW ARRANGEMENTS WITH ARAMCO BEFORE KUWAIT MOVES - EITHER TO NATIONALIZATION OR THE NEW HIGH TAX BASE. IF KUWAIT MOVES FIRST, SAUDI ARABIA WILL FOLLOW. HE SAID SAUDI ARABIA WAS IN AN ENTIRELY DIFFERENT SITUATION; THERE WERE MANY FORMULAE WHICH WOULD BE ACCEPTABLE TO SAUDI ARABIA AND WHICH COULD BE MORE FAVORABLE TO THE COMPANIES THAN WOULD BE THE KUWAITI ROUTE. BUT, HE SAID, HE WOULD NEVER RAISE THE SUBJECT WITH THE COMPANIES AGAIN. HE WILL WAIT UNTIL THEY BRING SOMETHING TO HIM.

6. ALL THE INFORMATION IN THIS TELEGRAM WAS PASSED TO JUNGERS OF ARAMCO YESTERDAY (OCT 19). HE PRESUMABLY HAS INFORMED THE PARENT COMPANIES. HE THOUGHT THE PARENT COMPANIES WOULD JUST WAIT FOR THE AX TO FALL; AS FAR AS HE KNOWS THEY HAVE NO PLANS TO MAKE ANY PROPOSAL TO ARAMCO.

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